

**YUANTA FUTURES CO., LTD. AND
SUBSIDIARIES
(FORMERLY POLARIS FUTURES CO., LTD.
AND SUBSIDIARIES)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2012 AND 2011

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS
TRANSLATED FROM CHINESE

PWCR12000293

To the Board of Directors and Stockholders of Yuanta Futures Co., Ltd.

We have audited the accompanying consolidated balance sheets of Yuanta Futures Co., Ltd. and its subsidiaries (formerly Polaris Futures Co., Ltd. and subsidiaries) as of December 31, 2012, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2011 were restated as described in the fifth paragraph. The consolidated financial statements of the former Polaris Futures Co., Ltd. (surviving company for the merger) and its subsidiaries as of and for the year ended December 31, 2011 were audited by other auditors, whose report dated January 17, 2012, expressed a modified unqualified opinion because of the use of review reports of other auditors in the preparation of these consolidated financial statements and to emphasize the adoption of amended and newly issued generally accepted accounting principles in the Republic of China. Therefore, the restatement of the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2011 involves amounts in the consolidated financial statements of the former Polaris Futures Co., Ltd. and its subsidiaries as of and for the year ended December 31, 2011, which were audited by other auditors. The consolidated total assets of the former Polaris Futures Co., Ltd. and its subsidiaries amounted to NT\$19,637,279 thousand, representing 48.41% of the restated consolidated total assets of the Company and its subsidiaries as of December 31, 2011, and consolidated net operating income of the former Polaris Futures Co., Ltd. and its subsidiaries amounted to NT\$464,666 thousand, representing 83.64% of the restated consolidated net operating income of the Company and its subsidiaries for the year ended

December 31, 2011.

We conducted our audit in accordance with the “Rules Governing the Examination of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yuanta Futures Co., Ltd. and its subsidiaries as of December 31, 2012 and 2011 (restated), and the results of their operations and their cash flows for the year then ended in conformity with the “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” and generally accepted accounting principles in the Republic of China.

Yuanta Futures Co., Ltd. re-consigned foreign futures trading business to MF Global Singapore Pte. Limited Taiwan Branch., and MF Global Futures Trust Co., Ltd., the investee of Yuanta Futures Co., Ltd. accounted for under the equity method, consigned trading business of MF Global Multi-Strategy Futures Trust Fund it managed to MF Global Singapore Pte. Limited that went into liquidation procedures in 2012 as described in Notes 4(2), 4(3) and 7.

As described in Notes 1(1), 4(9), and 17(6) to the consolidated financial statements, on October 6, 2011, the Board of Directors of the former Polaris Futures Co., Ltd. at their meeting resolved to merge with Yuanta Futures Co., Ltd. and set April 1, 2012 as the merger date by issuing new shares to increase capital based on a conversion ratio of 1 share of Yuanta Futures Co., Ltd. to 1.01 shares of Polaris Futures Co., Ltd. amounting to

\$1,010,000 with a par value of \$10 (in dollar) per share and totaling 101,000 thousand shares. Polaris Futures Co., Ltd. has obtained the approval to change its name to “Yuanta Polaris Securities Co., Ltd.”. Further, subsidiary—Polaris Futures (Hong Kong) Co., Ltd. was renamed Yuanta Futures (Hong Kong) Co., Ltd.. According to the regulations, for structure reorganization of the Group under joint control through business combination between subsidiaries within the Group in share swaps, it shall be assumed that the business combination had taken place on October 3, 2011 when preparing comparative consolidated financial statements, and prior years’ consolidated financial statements shall be restated. Therefore, the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2011 were restated based on consolidated financial statements of the former Polaris Futures Co., Ltd. and its subsidiaries and consolidated financial statements of Yuanta Futures Co., Ltd. and its subsidiaries for the corresponding period, which were audited by other auditors and us, respectively.

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, Yuanta Futures Co., Ltd. and its subsidiaries expects to adopt International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), relevant interpretations and interpretative bulletins, and “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” in the preparation of its consolidated financial statements. Yuanta Futures Co., Ltd. has disclosed related information in Note 18 – Disclosures relating to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Rule No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010, Jin-Guan-Zheng-Ji-Zi Rule No. 0990014302 of the Financial Supervisory Commission, dated April 13, 2010, and Tai-Ji-Ji-Zi Rule No. 09900039780 of the Taiwan Futures Exchange, dated April 22, 2010. The IFRSs may be subject to changes during the time of transition; therefore, the actual impact of IFRSs adoption on Yuanta Futures Co., Ltd. and its subsidiaries may also change.

PricewaterhouseCoopers, Taiwan

February 27, 2013

Taipei, Taiwan

Republic of China

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

YUANTA FUTURES CO., LTD. AND SUBSIDIARIES
(FORMERLY POLARIS FUTURES CO., LTD. AND SUBSIDIARIES)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	Notes	2012		2011 (Restated)	
		AMOUNT	%	AMOUNT	%
<u>ASSETS</u>					
<u>Current Assets</u>					
Cash and cash equivalents	4(1) and 5	\$ 4,169,161	11	\$ 3,807,953	9
Financial assets at fair value through profit or loss - current	4(2) and 9	889,817	2	1,442,552	4
Margin deposits	4(3) and 5	32,222,749	84	33,976,856	84
Futures trading margin receivable		25	-	160	-
Accounts receivable - non-related parties		3,914	-	22,858	-
Accounts receivable - related parties	5	12,502	-	11,298	-
Prepayments		7,897	-	5,567	-
Other receivables - non-related parties		29,700	-	28,665	-
Other receivables - related parties	5	9,916	-	3,220	-
Deferred income tax assets-current	4(12)	4,222	-	856	-
Available-for-sale financial assets - current	4(4)	103,315	-	-	-
Other current assets		20	-	-	-
Total Current Assets		37,453,238	97	39,299,985	97
<u>Funds and Long-term Investments</u>					
Investments accounted for under the equity method		72,957	-	79,760	-
Available-for-sale financial assets - noncurrent	4(4)	315,998	1	271,811	1
Total Funds and Long-term Investments		388,955	1	351,571	1
<u>Fixed Assets</u>					
Equipment		185,441	-	151,090	-
Leasehold improvements		99,302	-	72,200	-
Less: accumulated depreciation		(147,783)	-	(101,816)	-
Prepayments for equipment		25,062	-	13,360	-
Total Fixed Assets		162,022	-	134,834	-
<u>Intangible Assets</u>					
Deferred pension costs	4(7)	-	-	5,856	-
Other intangible assets		40,421	-	12,933	-
Total Intangible Assets		40,421	-	18,789	-
<u>Other Assets</u>					
Operations guarantee deposits	4(5) and 5	195,000	1	285,000	1
Clearing and settlement funds	4(6)	327,098	1	396,000	1
Refundable deposits	5	15,770	-	18,777	-
Deferred assets		6,808	-	36,280	-
Deferred income tax assets - noncurrent	4(12)	25,660	-	25,781	-
Total Other Assets		570,336	2	761,838	2
<u>TOTAL ASSETS</u>		<u>\$ 38,614,972</u>	<u>100</u>	<u>\$ 40,567,017</u>	<u>100</u>

(Continued)

YUANTA FUTURES CO., LTD. AND SUBSIDIARIES
(FORMERLY POLARIS FUTURES CO., LTD. AND SUBSIDIARIES)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012		2011 (Restated)	
		AMOUNT	%	AMOUNT	%
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>					
<u>Current Liabilities</u>					
Financial liabilities at fair value through profit or loss - current	9	\$ 10,312	-	\$ 13,410	-
Futures traders' equity	4(3) and 5	32,106,544	83	33,876,957	84
Accounts payable - non-related parties		66,459	-	73,049	-
Accounts payable - related parties	5	24,423	-	26,225	-
Collection for third parties		5,415	-	2,427	-
Other payables - non-related parties	4(12)	190,404	1	239,733	1
Other payables - related parties	4(12) and 5	-	-	12,954	-
Other current liabilities		-	-	15,843	-
<u>Total Current Liabilities</u>		<u>32,403,557</u>	<u>84</u>	<u>34,260,598</u>	<u>85</u>
Long-term liabilities - others		1,320	-	-	-
<u>Other Liabilities</u>					
Accrued pension liabilities - noncurrent	4(7)	31,799	-	34,014	-
Reserve for bad debts losses	7	58,190	-	121,921	-
<u>Total Other Liabilities</u>		<u>89,989</u>	<u>-</u>	<u>155,935</u>	<u>-</u>
<u>Total Liabilities</u>		<u>32,494,866</u>	<u>84</u>	<u>34,416,533</u>	<u>85</u>
<u>SHAREHOLDERS' EQUITY</u>					
<u>Capital Stock</u>					
Common stock	4(8)	2,322,763	6	1,312,763	3
<u>Capital Reserve</u>					
Paid-in capital in excess of par value	4(9)	1,961,444	5	361,300	1
Paid-in capital from business merger		46,333	-	46,333	-
<u>Retained Earnings</u>					
Legal reserve	4(11)	356,697	1	310,230	1
Special reserve	4(10)	928,785	3	824,179	2
Unappropriated earnings		523,907	1	465,637	1
<u>Other Adjustments to Shareholders' Equity</u>					
Cumulative translation adjustments		(17,984)	-	(11,673)	-
Unrealized profit or loss on financial instruments	4(4)	(1,839)	-	-	-
<u>Prior Interest under Joint Control</u>	17(6)	<u>-</u>	<u>-</u>	<u>2,841,715</u>	<u>7</u>
<u>Total Shareholders' Equity</u>		<u>6,120,106</u>	<u>16</u>	<u>6,150,484</u>	<u>15</u>
<u>Commitments and Contingent Liabilities</u>					
	7				
<u>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</u>		<u>\$ 38,614,972</u>	<u>100</u>	<u>\$ 40,567,017</u>	<u>100</u>

The accompanying notes are an integral part of these financial statements.

See report of independent accountants dated February 27, 2013.

YUANTA FUTURES CO., LTD. AND SUBSIDIARIES
(FORMERLY POLARIS FUTURES CO., LTD. AND SUBSIDIARIES)

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE AMOUNTS)

	Notes	2012		2011 (Restated)																																																										
		Amount	%	Amount	%																																																									
<u>Revenues</u>																																																														
Brokerage	5	\$ 2,267,007	56	\$ 1,719,127	29																																																									
Dividend revenues		17,068	1	10,597	-																																																									
Clearance fee from consignment	5	97,996	2	77,096	1																																																									
Gain on disposal of derivative financial instruments		1,167,466	29	3,773,738	65																																																									
Futures management fees revenues		3	-	1	-																																																									
Futures advisory revenues		5,565	-	3,893	-																																																									
Other operating revenues		12,691	-	7,286	-																																																									
Non-operating revenues	5	489,697	12	275,703	5																																																									
<u>Total Revenues</u>		<u>4,057,493</u>	<u>100</u>	<u>5,867,441</u>	<u>100</u>																																																									
<u>Expenses</u>																																																														
Brokerage fee		(388,126)	(10)	(241,033)	(4)																																																									
Dealer handling fee		(50,833)	(1)	(100,604)	(2)																																																									
Loss on disposal of operating securities		(786)	-	(12,304)	-																																																									
Futures commission	5	(506,855)	(12)	(448,124)	(8)																																																									
Clearance fee		(371,210)	(9)	(294,365)	(5)																																																									
Loss on disposal of derivative financial instruments		(818,982)	(20)	(2,987,133)	(51)																																																									
Operating expenses	5	(1,164,895)	(29)	(1,129,328)	(19)																																																									
Non-operating expenses	5	(62,769)	(2)	(21,613)	-																																																									
<u>Total Expenses</u>		<u>(3,364,456)</u>	<u>(83)</u>	<u>(5,234,504)</u>	<u>(89)</u>																																																									
Income before income tax		693,037	17	632,937	11																																																									
Income tax expense	4(12)	(109,539)	(3)	(77,365)	(2)																																																									
<u>Consolidated Net Income</u>		<u>\$ 583,498</u>	<u>14</u>	<u>\$ 555,572</u>	<u>9</u>																																																									
<u>Attributable to:</u>																																																														
Equity holders of the Company		\$ 523,881	13	\$ 464,666	8																																																									
Prior interest under joint control		59,617	1	90,906	1																																																									
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The accompanying notes are an integral part of these financial statements.

See report of independent accountants dated February 27, 2013.

YUANTA FUTURES CO., LTD. AND SUBSIDIARIES
(FORMERLY POLARIS FUTURES CO., LTD. AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Common Stock	Capital Reserves		Retained Earnings			Cumulative Translation Adjustments	Unrealized Profit or Loss on Financial Instruments	Prior Interest under Joint Control	Total
		Paid-in capital in excess of par value	Paid-in capital from business merger	Legal reserve	Special reserve	Unappropriated earnings				
2011 (RESTATEd)										
Balance as of January 1, 2011	\$ 1,312,763	\$ 361,300	\$ 46,333	\$ 280,486	\$ 560,973	\$ 297,621	\$ -	\$ -	\$ -	\$ 2,859,476
Appropriation of prior year's earnings (Note 1)										
Legal reserve	-	-	-	29,744	-	(29,744)	-	-	-	-
Special reserve	-	-	-	-	59,489	(59,489)	-	-	-	-
Cash dividends	-	-	-	-	-	(207,417)	-	-	-	(207,417)
Reversal of reserve for default and reserve for trading loss	-	-	-	-	203,717	-	-	-	-	203,717
Reorganization since merger on October 3, 2011	-	-	-	-	-	-	-	-	2,750,809	2,750,809
Effect of foreign exchange adjustments from long-term foreign investments	-	-	-	-	-	-	(11,673)	-	-	(11,673)
Net income for the year ended December 31, 2011	-	-	-	-	-	464,666	-	-	90,906	555,572
Balance at December 31, 2011 (after restatement)	<u>\$ 1,312,763</u>	<u>\$ 361,300</u>	<u>\$ 46,333</u>	<u>\$ 310,230</u>	<u>\$ 824,179</u>	<u>\$ 465,637</u>	<u>(\$ 11,673)</u>	<u>\$ -</u>	<u>\$ 2,841,715</u>	<u>\$ 6,150,484</u>
2012										
Balance at January 1, 2012 (after restatement)	\$ 1,312,763	\$ 361,300	\$ 46,333	310,230	824,179	465,637	(\$ 11,673)	\$ -	\$ 2,841,715	\$ 6,150,484
Appropriation of prior year's earnings (Note 2)										
Legal reserve	-	-	-	46,467	-	(46,467)	-	-	-	-
Special reserve	-	-	-	-	104,606	(104,606)	-	-	-	-
Cash dividends	-	-	-	-	-	(314,538)	-	-	-	(314,538)
Distribution of surplus by dissolving entity	-	-	-	-	-	-	-	(291,188)	(291,188)	(291,188)
New share issuance on April 1, 2012 due to merger	1,010,000	1,600,144	-	-	-	-	(256)	(2,610,144)	(256)	(256)
Unrealized profit or loss on financial instruments	-	-	-	-	-	-	(1,583)	-	(1,583)	(1,583)
Effect of foreign exchange adjustments from long-term foreign investments	-	-	-	-	-	-	(6,311)	-	(6,311)	(6,311)
Net income for the year ended December 31, 2012	-	-	-	-	-	523,881	-	-	59,617	583,498
Balance at December 31, 2012	<u>\$ 2,322,763</u>	<u>\$ 1,961,444</u>	<u>\$ 46,333</u>	<u>\$ 356,697</u>	<u>\$ 928,785</u>	<u>\$ 523,907</u>	<u>(\$ 17,984)</u>	<u>(\$ 1,839)</u>	<u>\$ -</u>	<u>\$ 6,120,106</u>

Note 1: Employees' bonus of \$23,072 and directors' and supervisors' remuneration of \$231 have been deducted from the Statement of Income for 2010.

Note 2: Employees' bonus of \$3,220 and directors' and supervisors' remuneration of \$318 have been deducted from the Statement of Income for 2011.

The accompanying notes are an integral part of these financial statements.

See report of independent accountants dated February 27, 2013.

YUANTA FUTURES CO., LTD. AND SUBSIDIARIES
(FORMERLY POLARIS FUTURES CO., LTD. AND SUBSIDIARIES)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2012	2011 (Restated)
<u>Cash flows from operating activities:</u>		
Consolidated net income	\$ 583,498	\$ 555,572
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Loss on investments accounted for under the equity method	6,803	6,132
Depreciation	55,964	55,193
Amortization	30,326	11,808
Loss on disposal of fixed assets	4,601	-
Gain on disposal of available-for-sale financial assets	(17,901)	-
Cash dividend from available-for-sale financial assets	11,149	-
Changes in assets and liabilities		
Financial assets at fair value through profit or loss - current	552,735 (	22,664)
Margin deposits	1,690,376	365,580
Futures trading margin receivable	135	-
Accounts receivable - non-related parties	25,728 (	18,656)
Accounts receivable - related parties	(1,204) (	9,163)
Prepayments	(2,330)	2,258
Other receivables - non-related parties	(1,035) (	9,303)
Other receivables - related parties	(6,696) (	950)
Other current assets	(20)	18
Deferred income tax assets/liabilities	(3,245)	11,153
Financial liabilities at fair value through profit or loss - current	(3,098) (	103,340)
Futures traders' equity	(1,770,413) (	377,203)
Accounts payable - non-related parties	(6,590) (	5,622)
Accounts payable - related parties	(1,802) (	5,740)
Advance collections	-	(39)
Collection for third parties	2,988 (	1,269)
Other payables - non-related parties	(49,329) (	7,772)
Other payables - related parties	(12,954) (	3,109)
Other current liabilities	(15,844) (	5,537)
Accrued pension liabilities	3,641	1,988
Other long-term liabilities	1,320	-
Net cash provided by operating activities	1,076,803	439,335
<u>Cash flows from investing activities:</u>		
Increase in available-for-sale financial assets - current	(284,737)	-
Increase in available-for-sale financial assets - noncurrent	(41,255)	-
Acquisition of fixed assets	(89,830) (	39,838)
Increase in intangible assets	(26,265) (	9,856)
Decrease in operations guarantee deposits	90,000	5,000
Decrease in clearing and settlement funds	68,902	24,000
Decrease (increase) in refundable deposits	3,007 (	413)
Disposal of available-for-sale financial assets	183,402	-
Net cash used in investing activities	(96,776)	(21,107)
<u>Cash flows from financing activity:</u>		
Payment of cash dividends	(605,726)	(207,417)
Effect of change in foreign exchange rates	(13,093)	(11,674)
Consolidated cash inflow due to merger	-	1,809,641
Net increase in cash and cash equivalents	361,208	2,008,778
Cash and cash equivalents at beginning of year	3,807,953	1,799,175
Cash and cash equivalents at end of year	\$ 4,169,161	\$ 3,807,953
<u>Supplemental disclosures of cash flow information</u>		
Interest paid	\$ 26,277	\$ 16,218
Income tax paid	\$ 112,181	\$ 49,143
<u>Noncash financing activities</u>		
Declared cash dividends not yet paid	\$ 61,339	-
Reversal of reserve for default and reserve for trading loss	\$ -	\$ 203,717

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated February 27, 2013.

YUANTA FUTURES CO., LTD. AND SUBSIDIARIES
(FORMERLY POLARIS FUTURES CO., LTD. AND SUBSIDIARIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011(RESTATED)
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

1) Yuanta Futures Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) and started its operations on April 9, 1997. The Company merged with “Refco Taiwan Co., Ltd.” on September 1, 2003 and was renamed as “Polaris Refco Futures Co., Ltd.”. As of 2005, on account of changes in foreign shareholders, an extraordinary shareholders’ meeting was held on February 15, 2006, and resolved to change its name to “Polaris Man Financial Futures Co., Ltd.” as approved by the Ministry of Economics.

On October 16, 2011, the Board of Directors of Polaris Man Financial Futures Co., Ltd. decided to merge with Yuanta Futures Co., Ltd. In relation to the share conversion with Yuanta Futures Co., Ltd. in accordance with Gin-Gwen-Zheng-Qi Letter No. 1000052507, the Company can exchange its common shares using a ratio of 1.01 share to 1 share of Yuanta Futures common share. Both parties agreed to set April 1, 2012 as the merger date. The Company has also obtained the approval to change its name to “Yuanta Futures Co., Ltd.”

2) The Company is primarily engaged in onshore and offshore futures brokerage business, futures dealing, futures consulting, futures business management, securities dealing, and a variety of futures related businesses approved by the competent authority. As of December 31, 2012, the Company had 6 branches.

3) As of December 31, 2012, the Company and its subsidiaries had approximately 411 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Company and its subsidiaries (collectively referred herein as the “Group”) are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” and generally

accepted accounting principles in the Republic of China. The Group's significant accounting policies are described below:

1) Basis for preparation of consolidated financial statements

A. All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. As of January 1, 2008, the Company started preparing consolidated financial statements for each quarter.

Significant inter-company transactions and assets and liabilities arising from inter-company transactions are eliminated.

B. Subsidiaries included in the consolidated financial statements and their changes:

Investor	Subsidiaries	Main activity	% of shares held as of December 31.	
			2012	2011
Yuanta Futures Co., Ltd.	Yuanta Futures (Hong Kong) Ltd.(Note 1)	Financial Services	100	100
Yuanta Futures Co., Ltd.	SYF Information Co., Ltd (Note 2)	Information Technology Services	100	-
SYF Information Co., Ltd.	SYF Information (SAMOA) Limited (Note 2)	Investment holdings	100	-

Note 1: The Company merged with "Yuanta Futures Co., Ltd." on April 1, 2012 and "Polaris Securities (Hong Kong) Co., Ltd." was renamed as "Yuanta Futures (Hong Kong) Ltd."

Note 2: Main business activities have not started.

C. Subsidiaries not included in the consolidated financial statements and their changes: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Special operating risks in foreign subsidiaries: None.

F. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

G. Contents of subsidiaries' securities issued by the parent company: None.

H. Information on convertible bonds and common stock issued by subsidiaries: None.

2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates except for beginning retained earnings, which is carried forward from prior year's balance.

Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation differences are included in “cumulative translation adjustments” under stockholders’ equity.

3) Foreign currency transactions

- A. Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year’s profit or loss.
- B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in current year’s profit or loss.
- C. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
 - b) Assets held mainly for trading purposes;
 - c) Assets that are expected to be realized within twelve months from the balance sheet date;
 - d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
 - b) Liabilities arising mainly from trading activities;

- c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

5) Financial assets and financial liabilities at fair value through profit and loss

- A. Beneficiary certificates and derivative instruments are accounted for using trade date accounting and are recognized initially at fair value. Derivative option transactions are recognized based on fair value on the date of trading.
- B. These financial instruments are subsequently re-measured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of open-end mutual funds is based on the net asset value at the balance sheet date.

6) Margin deposits

In accordance with the Rules Governing Futures Commission Merchants, margin deposits accounts refer to the guarantee deposits and premiums collected from the futures customers, and the spread is calculated based on daily market price.

7) Futures traders' equity/futures trading margin receivables

Futures traders' equity is the trading margin/premiums deposited by customers and the difference of daily close-market balance. Futures traders' equity is shown under current liabilities. It cannot be offset except for the same customer with the same category of accounts. If payable to customer does not occur, it should be classified as futures trading margin receivable.

8) Notes, accounts and other receivables

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, a provision for impairment of financial asset is recognized. The amount of impairment loss is determined based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognized. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

9) Investments accounted for under the equity method

- A. Investments in which the Company holds more than 20% of the investee company's

voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method.

- B. Exchange differences arising from translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "cumulative translation adjustments" under shareholders' equity.

10) Available-for-sale financial assets

- A. Equity securities are accounted for using trade date accounting and are recognized initially at fair value in addition to trading costs for acquisition and issuance.
- B. Available-for-sale financial assets are re-measured and stated at fair value, and the gain or loss is recognized in equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. The fair value of listed stocks and OTC stocks is determined based on the latest quoted fair prices at the accounting period.
- C. Unlisted and emerging stocks are stated at cost.
- D. If there is any objective evidence that the financial asset is impaired, a loss is recognized. When the fair value of an equity instrument subsequently increases, impairment losses recognized previously in profit or loss shall not be reversed. When the fair value of a debt instrument subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss recognized in profit or loss.

11) Fixed assets

- A. Except for fixed assets under revaluation in accordance with laws and regulations, fixed assets are stated at cost. Interests incurred on the loans used to bring the asset to the condition and location for its intended use are capitalized.
- B. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current operations.
- C. Depreciation is provided using the straight-line method based on the estimated economic useful lives of the assets. When assets are continually in use after the expiration of their service lives, the residual values and services lives are estimated and depreciated accordingly. The estimated useful lives of major fixed assets range from 2 to 6 years.

12) Intangible assets

- A. Intangible assets represent membership in foreign Futures Exchange. The Group adopted R.O.C. SFAS No. 37, "Intangible Assets", which require that intangible assets are stated initially at cost. Subsequently, the carrying amounts are measured at cost less accumulated impairment loss for those intangible assets with indefinite useful lives.
- B. Computer software expenditures are stated at cost and amortized over the estimated life of 2 to 3 years using the straight-line method.

13) Impairment of non-financial assets

- A. The Group recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.
- B. Intangible assets with indefinite useful lives shall be evaluated periodically. Impairment loss will be recognized whenever there is indication that the recoverable amount of these assets is less than their respective carrying amount.

14) Provision for bad debts

In accordance with the Ministry of Finance, R.O.C. committee (88)- Tai-Tsai-Cheng Rule (7) No. 91625, from July 1, 1999 to June 30, 2003, futures commission merchants shall make appropriate provisions for bad debt at 3% of sales revenue of its primary lines of business on a monthly basis. In the event no bad debt is available for write-off, the sum shall be reclassified to "reserve for loss in bad debts". The provision can only be used for write-offs, including default for trading loss. However, effective July 1, 2003, this rule was no longer applicable.

15) Pension plan

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

16) Income tax

- A. Provision for income tax includes deferred income tax resulting from temporary differences, investment tax credits and loss carryforward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior years' income tax liabilities is included in current year's income tax. When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change.

The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be recognized as an adjustment to income tax expense (benefit) for income from continuing operations in the current period.

- B. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

17) Revenue, cost and expense

Revenues are recognized when the earning process is substantially completed and are realized or realizable. Costs and expenses are recognized as incurred.

18) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their stockholders' meeting subsequently, the significant differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated June 30, 2008, "Criteria for Listed Companies in Calculating the Number of Shares of Employees' Stock Bonus", the Company calculates the number of shares of employees' stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

19) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles, R.O.C., requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

20) Business combination

The business combination between Company and its affiliates is classified as a reorganization in accordance with EITF 100-390 of the Accounting Research and

Development Foundation, R.O.C., and is recognized based on the carrying amount of the Company's long-term investments (the amount after impairment loss); the long-term investments should be reclassified as assets and liabilities when its affiliates are eliminated. Further, according to Accounting Research and Development Foundation Interpretations 95-141 and 101-301, this affiliated company was regarded as having been merged on October 3, 2011 and the prior years' consolidated financial statements were restated. Additionally, the prior interest in the dissolved company held by parent company was presented as "prior interest under joint control" in the consolidated financial statements. Polaris Securities Co., Ltd. was absorbed as a subsidiary of Yuanta Financial Holdings Co., Ltd. through share swaps on October 3, 2011. Polaris Futures Co., Ltd. was formerly a subsidiary of Polaris Securities Co., Ltd.. Therefore, October 3, 2011 was regarded as the effective date of merger, and according to Accounting Research and Development Foundation Interpretation 101-301, the 100% interest in Yuanta Futures Co., Ltd. previously held by Yuanta Financial Holdings Co., Ltd. was presented as "prior interest under joint control" in the consolidated financial statements.

21) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. In accordance with R.O.C. SFAS No. 41, "Operating Segments", segment information is disclosed both in the consolidated financial statements and in the separate financial statements of the Company.

3. CHANGES IN ACCOUNTING PRINCIPLES

1) Notes, accounts and other receivables

Effective January 1, 2011, the Group adopted the amendments to R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". A provision for impairment (bad debts) of notes, accounts and other receivables is recognized when there is objective evidence that the receivables are impaired. This change in accounting principle had no significant effect on net income for the year ended December 31, 2011.

2) Operating segments

Effective January 1, 2011, the Group adopted the newly issued R.O.C SFAS No. 41, "Operating Segments" to replace the original R.O.C. SFAS No. 20, "Segment Reporting". In accordance with such standard, the Group restated the segment information for 2010 upon the first adoption of R.O.C. SFAS No. 41. This change in accounting principle had

no significant effect on net income and earnings per share for the year ended December 31, 2011.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) CASH AND CASH EQUIVALENTS

	December 31,	
	2012	2011
Petty cash	\$ 265	\$ 320
Checking deposits	20	1,280
Demand deposits	102,613	264,914
Time deposits	3,453,244	3,160,700
Foreign currency deposits	53,905	61,051
	<u>3,610,047</u>	<u>3,488,265</u>
Cash equivalents - commercial paper (expiring within three months)	559,114	319,688
Total	<u>\$ 4,169,161</u>	<u>\$ 3,807,953</u>

2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	December 31,	
	2012	2011
<u>Financial assets held for trading</u>		
Call options contract - non-hedging	\$ 12,580	\$ 34,633
Futures margin deposits - house funds	877,237	1,407,919
Total	<u>\$ 889,817</u>	<u>\$ 1,442,552</u>

A. As of December 31, 2012 and 2011, for the futures margin deposits – house funds, the amounts of deposits exceeding the limit were \$858,197 and \$1,401,723, respectively.

B. As of December 31, 2012, the Group had a balance of \$24,443 in futures trading margins deposited in MF Global Singapore Pte. Limited Taiwan Branch. As for the significant and potential effect related to U.S. MF Global Holdings Ltd., please see Note 7 – Commitments and Contingent Liabilities.

3) MARGIN DEPOSITS/FUTURES TRADERS' EQUITY

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Margin deposits by customers:		
Cash in banks	\$ 25,898,081	\$ 26,730,946
Clearing house	4,811,888	5,593,883
Other futures commission merchants	<u>1,512,780</u>	<u>1,652,027</u>
Total	32,222,749	33,976,856
Less: fees of revenue pending for transfer	(108,114)	(93,412)
futures exchange tax pending for transfer	(3,103)	(2,044)
others	<u>(4,988)</u>	<u>(4,443)</u>
Futures traders' equity	<u>\$ 32,106,544</u>	<u>\$ 33,876,957</u>

A. As of December 31, 2012, the Group's customer trading margin had a balance of \$162,453 deposited in MF Global Singapore Pte. Limited Taiwan Branch. In accordance with the Executive Yuan, R.O.C., Gin-Gwen-Shun Rule No. 1000055081 of the Financial Supervisory Commission as to mitigate the impact on domestic futures traders' equity due to bankruptcy of U.S. MF Global Holdings Ltd., the Executive Yuan allowed futures commission merchants, whose customers' margin deposited in MF Global Singapore Pte, Limited Taiwan Branch was frozen and unable to be retrieved upon customers' requests or create a hedge position, to prepay with their own capital fund and recognize the amount as accounts receivable. As of December 31, 2012, the Company had a zero balance in its accounts receivable for such prepayments described above.

B. For details described above, please see Note 7 – Commitments and Contingent Liabilities.

4) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31,	
	2012	2011
Current:		
Listed (TSE and OTC) stocks	\$ 108,086	\$ -
Adjustment of financial assets designated as at fair value through profit or loss	(4,771)	-
Total	<u>\$ 103,315</u>	<u>\$ -</u>
Noncurrent:		
Listed (TSE and OTC) stocks	\$ 41,255	\$ -
Unlisted stocks	<u>271,811</u>	<u>271,811</u>
Sub-total	313,066	271,811
Adjustment of financial assets designated as at fair value through profit or loss	<u>2,932</u>	<u>-</u>
Total	<u>\$ 315,998</u>	<u>\$ 271,811</u>

5) OPERATIONS GUARANTEE DEPOSITS

As of December 31, 2012 and 2011, the Company provided time deposits as operations guarantee deposits maturing within one-year in Yuanta Bank and Cathay United Bank with annual interest rate of 1.345% and 1.36% , respectively.

6) CLEARING AND SETTLEMENT FUNDS

In order to meet the member qualification for clearing and settlement funds regulated by Taiwan Futures Exchange Corporation, the Company provided 20% of its actual capital received as clearing and settlement funds and the ceiling on total amount of the fund provided cannot exceed \$40,000. However, an additional \$1,000 of clearing and settlement funds is required if the Company establishes an additional branch or acts as an authorized futures trader for a specific trade.

7) PENSION PLAN

- A. The Company and its R.O.C subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Law covering all regular employees. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the monthly salary of the last month prior to retirement. The Company contributes monthly an

amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with the Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

B. The following is the pension information based on the actuarial report:

a) Actuarial assumptions

	For the years ended December 31,	
	2012	2011
Discount rate	1.75%	1.90%
Effect of future salary increments	3.00%	2.00%~3.00%
Expected return rate on plan assets	1.75%	1.90%

b) Funded status of the pension plan

	December 31,	
	2012	2011
Benefit obligation:		
Vested benefit obligation	(\$ 644)	(\$ 935)
Non-vested benefit obligation	(39,697)	(58,624)
Accumulated benefit obligation	(40,341)	(59,559)
Effect of future salary increments	(23,014)	(31,391)
Projected benefit obligation	(63,355)	(90,950)
Fair value of plan assets	21,757	26,923
Funded status	(41,598)	(64,027)
Unrecognized net transition obligation	691	784
Unamortization prior service cost	6,368	6,899
Adjustments to accrued pension liabilities	3,996	(5,856)
Unrecognized gain or loss on plan assets	-	28,448
Accrued pension liability	(\$ 30,543)	(\$ 33,752)

c) Net pension cost comprises the following:

	December 31,	
	2012	2011
Service cost	\$ 580	\$ 543
Interest cost	1,728	1,214
Expected return on plan assets	(511)	(334)
Amortization of unrecognized net gain on plan assets	1,479	1,114
Amortization of prior service cost	530	531
Amortization of unrecognized net transition obligation	93	51
Net pension cost	\$ 3,899	\$ 3,119

C. Effective July 1, 2005, in accordance with the Labor Pension Act, the Company established a defined contribution plan covering employees with R.O.C nationality. The employees have the option to participate in the New Plan. Under the New Plan, the Company contributes monthly an amount not less than 6% of employees' salaries to the employees' personal pension account with the "Bureau of Labor Insurance". The total pension expenses amounted to \$18,345 and \$14,388 under the New Plan for the years ended December 31, 2012 and 2011, respectively.

8) COMMON STOCK

As of December 31, 2012 and 2011, the Company's authorized capital consisted of 250,000,000 shares of common stock and the issued and outstanding common stocks consisted of 232,276,288 and 131,276,288 shares with a par value of \$10 (in dollars) per share.

On October 6, 2011, the Board of Directors of the Company at their meeting resolved to merge with Yuanta Futures Co., Ltd. and set April 1, 2012 as the merger date by issuing new shares amounting to \$1,010,000 with a par value of \$10 (in dollar) per share and totaling 101,000 thousand shares.

9) CAPITAL RESERVE

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

10) SPECIAL RESERVE

A. According to the "Rules Governing the Administration of Securities Firms", 20% of the current year's earnings, after paying all taxes and offsetting prior years' operating losses, if any, shall be set aside as special reserve until the cumulative balance equals the total amount of paid-in capital. The special reserve shall be used exclusively to cover accumulated deficit or to increase capital and shall not be used for any other purpose. Such capitalization shall not be permitted unless the Company has already accumulated a special reserve of at least 50% of its paid-in capital and only half of such special reserve may be capitalized.

- B. In accordance with the Gin-Guan-Zheng (1) Letter No. 095000507, effective January 1, 2007, special reserve shall be set aside up to an amount equal to the sum of “unrealized loss on financial instruments” under shareholders’ equity.

12) RETAINED EARNINGS

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve and 20% of the remaining amount shall be set aside as special reserve. Bonus distributed to the employees and remuneration paid to the directors and supervisors should account for 0.1%~5% and 0.1%~1%, respectively, of the total distributed amount. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders.

According to the dividend policy adopted by the Board of Directors, at least 50% of the Company’s distributable earnings shall be appropriated as dividends in which cash dividends shall account for at least 30% of the total dividends distributed.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve and special reserve shall not be used for any other purpose. The use of legal reserve and special reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company’s paid-in capital.

C. The appropriation of 2011 and 2010 earnings had been resolved by the Board of Directors (acting on behalf of stockholders) on March 6, 2012 and May 24, 2011, respectively. Details are summarized below:

	2011		2010	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 46,467		\$ 29,744	
Special reserve	104,606		59,489	
Cash dividend	314,538	\$ 2.40	207,417	\$ 1.58

There were no differences between the above-mentioned appropriation for 2011 and 2010 and the resolution on appropriation resolved by the Board of Directors at the stockholders’ meetings on January 17, 2012 and February 24, 2011, respectively. Information on the appropriation of the Company’s earnings resolution will be posted in the “Market Observation Post System” at the website of the Taiwan Stock Exchange.

- D. Employees' bonus and directors' and supervisors' remuneration for 2011 were estimated and accrued at \$3,220 and \$318, respectively, as resolved by the Board of Directors at the stockholders' meeting on March 6, 2012. Employees' bonus and directors' and supervisors' remuneration accrued in the 2011 financial statements were \$3,232 and \$350, respectively. The difference amounting to \$44 had been adjusted in the statement of income for the year of 2012. Information on the resolution for employees' bonus and directors' and supervisors' remuneration will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.
- E. Employees' bonus and directors' and supervisors' remuneration for the year ended December 31, 2012 were accrued at \$3,035 and \$468, respectively, which were estimated based on certain percentages, as prescribed by the Company's Articles of Incorporation, of net income in this period after taking into account the legal reserve and other factors, and were recognized as operating expenses. However, if the appropriated amounts as resolved by the stockholders at the subsequent stockholders' meeting are different from the accrued amounts, those differences shall be adjusted in profit or loss of the following year.

13) INCOME TAX

- A. Income tax expense and payable are reconciled as follows:

	<u>For the years ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Net profit before tax, at tax rate according to R.O.C. income tax law	\$ 117,816	\$ 107,599
Tax effect of permanent difference	(8,277)	(32,050)
Income tax adjustment in prior year	-	1,737
Retention tax (10%) on unappropriated earnings	-	79
Income tax expense	<u>109,539</u>	<u>77,365</u>
Net change in deferred income tax assets	(8,093)	(11,153)
The tax of the dissolved company—formerly Yuanta Futures Co., Ltd. due to parent company on October 3, 2011 under consolidated tax return	-	9,875
Prepaid and withholding taxes	(72,181)	(49,143)
Income tax adjustment in prior year	-	(1,737)
Income tax payable	<u>\$ 29,265</u>	<u>\$ 25,207</u>

Note: The tax (including the tax of the dissolved company—formerly Yuanta Futures Co., Ltd.) of \$12,144 due to parent company on December 31, 2011 under consolidated tax return system.

- B. As of December 31, 2012 and 2011, details of temporary differences resulting in deferred

income tax assets and liabilities are as follows:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Current items:				
Temporary difference				
Others	\$ 24,833	\$ 4,222	\$ 5,036	\$ 856
Valuation allowance for deferred income tax		-		-
Deferred income tax assets		<u>\$ 4,222</u>		<u>\$ 856</u>
Non-current items:				
Temporary difference				
Reserve for bad debt losses	\$ 121,830	\$ 20,711	\$ 12,921	\$ 20,726
Others	29,114	<u>4,949</u>	29,728	<u>5,055</u>
		25,660		25,781
Valuation allowance for deferred income tax		-		-
Deferred income tax assets		<u>\$ 25,660</u>		<u>\$ 25,781</u>

- C. As of December 31, 2012, the Company's income tax returns through 2010 have been assessed and approved by the Tax Authority.
- D. As of December 31, 2012 and 2011, the balance of the unappropriated retained earnings, imputation tax credit account, appropriation for rate of imputation credit account for 2011 and 2010 is as follows:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
(1) Unappropriated retained earnings		
Earnings generated in and before 1997	\$ 21	\$ 21
Earnings generated in and after 1998	<u>523,886</u>	<u>465,616</u>
	<u>\$ 523,907</u>	<u>\$ 465,637</u>
(2) Balance of imputed credit account	<u>\$ 70,042</u>	<u>\$ 105,358</u>
	<u>2012 (Expected)</u>	<u>2011 (Actual)</u>
(3) Expected (actual) rate of imputation credit account	<u>13.37%</u>	<u>20.49%</u>

Note: The tax credits to be allocated to the stockholders are calculated based on the balance of the imputation tax credit account on the dividend day. Therefore, the creditable tax rate applicable to the stockholders for the appropriation of earnings after 1998 shall be adjusted taking into account that the tax credits might occur to the Company under the income tax laws before the dividend day.

14) EARNINGS PER SHARE

For the year ended December 31, 2012					
			Weighted-average outstanding common stock (thousand shares)	Earnings per share (in NT dollars)	
	Before tax	After tax		Before tax	After tax
<u>Basic earnings per share</u>					
Profit attributable to shareholders of parent company	\$ 621,620	\$ 523,881	232,276	\$ 2.67	\$ 2.25
Net income before common controlling interest	<u>71,417</u>	<u>59,617</u>		<u>0.31</u>	<u>0.26</u>
Consolidated net income	<u>\$ 693,037</u>	<u>\$ 583,498</u>		<u>\$ 2.98</u>	<u>\$ 2.51</u>
<u>Diluted earnings per share</u>					
Profit attributable to shareholders of parent company	\$ 621,620	\$ 523,881		\$ 2.67	\$ 2.25
Net income before common controlling interest	71,417	59,617		0.31	0.26
Dilutive effects of stock bonus on potential common share	<u>-</u>	<u>-</u>	<u>95</u>	<u>-</u>	<u>-</u>
Consolidated net income	<u>\$ 693,037</u>	<u>\$ 583,498</u>	<u>232,371</u>	<u>\$ 2.98</u>	<u>\$ 2.51</u>

For the year ended December 31, 2011					
			Weighted-average outstanding common stock (thousand shares)	Earnings per share (in NT dollars)	
	Before tax	After tax		Before tax	After tax
<u>Basic earnings per share</u>					
Profit attributable to shareholders of parent	\$ 532,031	\$ 464,666	156,526	\$ 3.40	\$ 2.98
Net income before common controlling interest	<u>100,906</u>	<u>90,906</u>		<u>0.64</u>	<u>0.58</u>
Consolidated net income	<u>\$ 632,937</u>	<u>\$ 555,572</u>		<u>\$ 4.04</u>	<u>\$ 3.56</u>
<u>Diluted earnings per share</u>					
Profit attributable to shareholders of parent	\$ 532,031	\$ 464,666		\$ 3.40	\$ 2.97
Net income before common controlling interest	100,906	90,906		0.64	0.58
Dilutive effects of stock bonus on potential common share	<u>-</u>	<u>-</u>	<u>97</u>	<u>-</u>	<u>-</u>
Consolidated net income	<u>\$ 632,937</u>	<u>\$ 555,572</u>	<u>156,623</u>	<u>\$ 4.04</u>	<u>\$ 3.55</u>

As employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would be increased from employees' stock bonus issuance in the weighted-average number of common shares outstanding during the reporting year, which taking into account the dilutive effects of stock bonus on potential common shares;

whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year.

15) PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

Personnel expenses, depreciation and amortization are summarized as follows:

<u>Nature/ Function</u>	<u>For the year ended December 31, 2012</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Personnel Expenses			
Salaries	\$ -	\$ 438,054	\$ 438,054
Insurance	-	28,971	28,971
Pension	-	23,218	23,218
Others	-	14,762	14,762
Depreciation	-	55,964	55,964
Amortization	-	30,326	30,326

<u>Nature/ Function</u>	<u>For the year ended December 31, 2011</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Personnel Expenses			
Salaries	\$ -	\$ 411,031	\$ 411,031
Insurance	-	22,668	22,668
Pension	-	17,526	17,526
Others	-	10,941	10,941
Depreciation	-	55,193	55,193
Amortization	-	11,808	11,808

5. RELATED PARTY TRANSACTIONS

1) Names of the related parties and their relationship with the Company

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Yuanta Financial Holdings Co., Ltd. (Note 2)	Parent company
Yuanta Bank Co., Ltd. (Note 2)	Affiliated company
Yuanta Securities Co., Ltd. (Note 1)	Affiliated company
Yuanta Investment Consulting Co., Ltd.	Affiliated company
Yuanta Securities (Hong Kong) Ltd. (Note 1)	Affiliated company
Yuanta Investment Trust Management Fund	Fund managed by the affiliated company
MF Global Futures Trust Co., Ltd. (MF Global Futures Trust)	Invested company accounted for under the equity method
MF Global Futures Trust Management Fund	Fund managed by the invested company accounted for under the equity method
MF Global Singapore Pte. Limited Taiwan Branch (Note 3)	Related party in substance
Polaris Research Institute	Related party in substance
Yuanta Cultural & Educational Foundation (Yuanta Foundation)	Related party in substance
Ho, Ming-Yu	Related party in substance

Note 1: Yuanta Securities Co., Ltd. merged with Polaris Futures Co., Ltd. on April 1, 2012 and was renamed as “Yuanta Futures Co., Ltd.” .

Note 2: Yuanta Financial Holdings Co., Ltd., the Parent Company, merged with Polaris Securities Co., Ltd., and its subsidiaries effective October 3, 2011. As of October 3, 2011, Yuanta Financial Holdings Co., Ltd., and its subsidiary, Yuanta Bank Co., Ltd., have become related parties of the Company.

Note 3: The Company issued new shares for merging with Yuanta Futures Co., Ltd on April 1, 2012. As a result, the ownership of the parent company of Yuanta Futures Co., Ltd. in the Company has declined from 19.50% to 11.02%. Further, the Company conducted a reelection for directors and independent directors on May 23, 2012. Therefore, this related party relationship has ceased.

2) Significant related party transactions and balances

A. Cash/Guarantee deposits/Margin deposits/Futures margin deposits/Interest income

Related Party	For the year ended December 31, 2012				
	Ending balance of bank deposits	Operations guarantee deposits	Margin deposits	Futures margin deposits	Interest income
Yuanta Bank Co., Ltd.	\$ 995,852	\$ 195,000	\$ 5,697,355	\$ -	\$ 115,035
Yuanta Securities (Hong Kong) Ltd.	-	-	62,491	22,776	-
	<u>\$ 995,852</u>	<u>\$ 195,000</u>	<u>\$ 5,759,846</u>	<u>\$ 22,776</u>	<u>\$ 115,035</u>

Related Party	For the year ended December 31, 2011				
	Ending balance of bank deposits	Operations guarantee deposits	Margin deposits	Futures margin deposits	Interest income
Yuanta Bank Co., Ltd.	\$ 444,126	\$ 80,000	\$ 4,100,661	\$ -	\$ 14,996
MF Global Singapore Pte. Limited Taiwan Branch (Note)	-	-	604,492	96,494	457
Yuanta Securities (Hong Kong) Co., Ltd.	-	-	55,644	-	-
	<u>\$ 444,126</u>	<u>\$ 80,000</u>	<u>\$ 4,760,797</u>	<u>\$ 96,494</u>	<u>\$ 15,453</u>

Note: See Note 5(1) No.3

Interest income includes the interest of demand deposits, time deposits, margin deposits, and operations guarantee deposits. See Note 4(5) for details of operations guarantee deposits.

B. Accounts receivable – related parties

Related party	December 31,			
	2012		2011	
	Amount	%	Amount	%
Yuanta Securities Co., Ltd.	\$ 12,502	100	\$ 3,120	28
MF Global Singapore Pte. Limited Taiwan Branch (Note)	-	-	8,069	71
MF Global Futures Trust Co., Ltd.	-	-	102	1
Others	-	-	7	-
	<u>\$ 12,502</u>	<u>100</u>	<u>\$ 11,298</u>	<u>100</u>

Note: See Note 5(1) No.3

C. Other receivables – related parties

Related party	December 31,			
	2012		2011	
	Amount	%	Amount	%
Yuanta Bank Co., Ltd.	\$ 7,522	76	\$ 3,121	97
Yuanta Securities Co., Ltd.	2,282	23	-	-
Others	112	1	99	3
	<u>\$ 9,916</u>	<u>100</u>	<u>\$ 3,220</u>	<u>\$ 100</u>

D. Refundable deposits

<u>Related party</u>	December 31,			
	2012		2011	
	Amount	%	Amount	%
Yuanta Securities Co., Ltd.	\$ 6,428	41	\$ 3,083	17

E. Accounts payable – related parties

<u>Related party</u>	December 31,			
	2012		2011	
	Amount	%	Amount	%
Yuanta Securities Co., Ltd.	\$ 24,423	100	\$ 25,776	98
MF Global Singapore Pte. Limited Taiwan Branch (Note)	-	-	449	2
	\$ 24,423	100	\$ 26,225	100

Note: See Note 5(1) No.3

F. Other payables – related party

<u>Related party</u>	December 31,			
	2012		2011	
	Amount	%	Amount	%
Yuanta Securities Co., Ltd.	\$ -	-	\$ 804	1
Yuanta Financial Holdings Co., Ltd.	-	-	12,144	99
Yuanta Securities (Hong Kong) Ltd.	-	-	6	-
	\$ -	-	\$ 12,954	100

G. Futures traders' equity

<u>Related party</u>	December 31,			
	2012		2011	
	Amount	%	Amount	%
Yuanta Securities Co., Ltd.	\$ 2,202,526	7	\$ 1,430,650	4
Yuanta Securities (Hong Kong) Ltd.	54,923	-	88,040	-
Yuanta Investment Trust Management Fund	-	-	237,384	1
Ho, Ming-Yu	-	-	233,275	1
Others	-	-	34,518	-
	\$ 2,257,449	7	\$ 2,023,867	6

H. Brokerage

	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
<u>Related party</u>				
Yuanta Securities Co., Ltd.	\$ 31,860	1	\$ 5,950	-
Others	747	-	11,324	1
	<u>\$ 32,607</u>	<u>1</u>	<u>\$ 17,274</u>	<u>1</u>

I. Clearance fee from consignment

	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
<u>Related party</u>				
Yuanta Securities Co., Ltd.	\$ 38,478	39	\$ 4,074	5

J. Securities trading commissions income

	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
<u>Related party</u>				
Yuanta Securities Co., Ltd.	\$ 3,273	26	\$ 4,323	59

K. Futures trust fund sales income

	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
<u>Related party</u>				
MF Global Futures Trust Co., Ltd.	\$ 2,000	16	\$ 1,969	27
MF Global Futures Trust Management Fund	-	-	239	3
	<u>\$ 2,000</u>	<u>16</u>	<u>\$ 2,208</u>	<u>30</u>

L. Futures commissions income and consigned/entrusted foreign futures trading commissions

	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
<u>Related party</u>				
Yuanta Securities Co., Ltd.	\$ 298,908	59	\$ 224,258	50
MF Global Singapore Pte. Limited Taiwan Branch (Note)	-	-	110,564	25
Yuanta Securities (Hong Kong) Ltd.	6,126	1	484	-
	<u>\$ 305,034</u>	<u>60</u>	<u>\$ 335,306</u>	<u>75</u>

Note: See Note 5(1) No.3

The Company engaged with Yuanta Securities Co., Ltd. and Yuanta Securities (Hong Kong) Co., Ltd. for the purpose of futures trading and consigned/entrusted foreign futures trading, that is, the Company acts as an agent for trading of futures contracts and futures option contracts for its customers. The futures commission expense and payment terms do not have any significant

difference between related parties and non-related parties.

M. Service expenses

<u>Related party</u>	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
Yuanta Investment Consulting Co., Ltd.	\$ 3,540	47	\$ 885	8
Yuanta Securities Co., Ltd.	663	9	600	6
	<u>\$ 4,203</u>	<u>56</u>	<u>\$ 1,485</u>	<u>14</u>

N. Interest expenses

<u>Related party</u>	For the years ended December 31,			
	2012		2011	
	Amount	%	Amount	%
Yuanta Securities Co., Ltd.	\$ 4,168	15	\$ 1,163	4
MF Global Futures Trust Management Fund	-	-	1,373	9
Yuanta Securities (Hong Kong) Ltd.	58	-	-	-
	<u>\$ 4,226</u>	<u>15</u>	<u>\$ 2,536</u>	<u>13</u>

J. Rental fees

The Company paid the rental fees for Yuanta Securities Co., Ltd. for the years ended December 31, 2012 and 2011 amounting to \$28,516 and \$17,852, respectively. The rentals were determined by reference to the rental rates of the office buildings and by contracts between the related parties.

O. Others

- a) The Company made donations to Yuanta Foundation and Polaris Research Institute for the year ended December 31, 2012 amounting to \$1,000 and 1,500, respectively, and recorded as “Operating expense – Donations”.
- b) The Company paid the directors’, supervisors’, CEO’s and vice CEO’s etc. chief administrative salaries for the year ended December 31, 2012. For the related information, please refer to the Company’s annual report.

6. PLEDGED ASSETS

None.

7. COMMITMENTS AND CONTINGENT LIABILITIES

The Company re-consigned foreign futures trading business to MF Global Singapore Pte. Limited Taiwan Branch. MF Global Futures Trust Co., Ltd., the investee of the Company accounted for under the equity method, consigned trading business of MF Global Multi-Strategy Futures Trust Fund it managed to MF Global Singapore Pte. Limited. The parent company of MF Global Singapore Pte. Limited and MF Global Singapore Pte. Limited Taiwan Branch, MF Global Holdings Ltd., has filed for bankruptcy

protection in the U.S.A., so that MF Global Singapore Pte. Limited also went into liquidation procedures on November 1, 2011 and has transferred customers trading business to other futures firms and frozen customers margin accounts. The press release issued by the provisional liquidators of MF Global Singapore Pte. Limited on May 28, 2012 stated that the margin position on hand and in control was raised from 86% to 95% of total margin; the collectible amount of the remaining margin that was in the hand of trading counterparties or other futures brokers shall be confirmed by the end of the liquidation. As of December 31, 2012, margin totaling NT\$250,536 thousand deposited by the Company in MF Global Singapore Pte. Limited Taiwan Branch was frozen and unable to be retrieved because of the incident above (shown under “Financial assets at fair value through profit or loss - current” and “Current assets – customer margin account”). According to the opinion letter of the lawyers appointed by the Chinese National Futures Association in connection with the collectibility of margin deposited by domestic futures firms in MF Global Singapore Pte. Limited Taiwan Branch, the collection of margin shall be assured. However, after the Company retrieved 70% of customers margin from the first allotment during April to June, 2012, there was no further allotment. According to the opinion letter issued by the law firm in December, 2011, if the customers margin of US\$45,000 thousand deposited by Taiwan futures firms in MF Global Singapore Pte. Limited cannot be retrieved fully, the portion that cannot be retrieved can be fully compensated from customers margin of approximately US\$20,000 thousand in MF Global Singapore Pte. Limited Taiwan Branch, based on customers margin having been retrieved as published by liquidator KPMG then. However, all customers margin of approximately US\$20,000 thousand in MF Global Singapore Pte. Limited Taiwan Branch had been allocated in the first allotment during April to June, 2012, and although MF Global Singapore Pte. Limited Taiwan Branch’s own capital may be included in the future allotments, there is still doubt whether the Company can be compensated for the remaining customers margin that has not yet been retrieved. Moreover, as announced at the Creditors’ Meeting, there is still customers margin of US\$31,050 thousand in affiliated companies of MF Global that has not been retrieved; the collectibility rate of such customers margin was evaluated to be 0%~50%. To this day, liquidator KPMG has not published collection progress and collectibility rate, so the Company expects that it may not be fully compensated.

After the first allotment, the Company tried to negotiate with liquidator KPMG through Taiwan and Singapore competent authorities and also sent letters inquiring on the collection progress of the customers margin; however, it had not received any positive response. The data published at the Creditors’ Meeting in Singapore on May 28, 2012 showed that the collectability rate of customers margin, evaluated by liquidator KPMG, was to be 92.6%~96.8%. Based on conservatism principle, the Company estimated that its customers margin of US\$2,190 thousand (equivalent to NT\$63,640 thousand; original margin receivable of US\$29,550 thousand multiplied by 7.4%) may not be collected, which was used to write off the balance on allowance for bad debts.

Further, to prevent the investors of MF Global Multi-Strategy Futures Trust Fund from encountering losses, on February, 2012, the board of MF Global Futures Trust Co., Ltd. was committed to assume all losses resulting from the uncollectible futures margin of MF Global Multi-Strategy Futures Trust Fund for the incident above. However, the compensation shall not be greater than the company’s useful fund.

Based on conservatism principle, MF Global Futures Trust Co., Ltd. estimated that its customers margin of US\$175.5 thousand could not be collected. Polaris Futures Co., Ltd. will then adjust the related investment income (loss) accordingly.

8. SIGNIFICANT CATASTROPHE

None.

9. INFORMATION ON FINANCIAL INSTRUMENTS

The Company had financial instrument trading - derivatives as follows:

December 31, 2012

Item	Object of Transaction	Open Interest			Fair Value	Remarks
		Purchaser/Seller	Number of Contract(s) (Lot)	Margin Paid (Received) (Margin Received)		
Futures contract (Domestic)	TX	Purchaser	59	\$ 90,032	\$ 90,589	
Futures contract (Domestic)	TX	Seller	59	(89,824)	(90,589)	
Futures contract (Domestic)	MTX	Purchaser	16	6,102	6,142	
Futures contract (Domestic)	MTX	Seller	53	(20,328)	(20,344)	
Futures contract (Domestic)	TE	Purchaser	4	4,582	4,611	
Futures contract (Domestic)	TF	Purchaser	1	844	840	
Futures contract (Domestic)	TX	Purchaser	8	335	330	
Futures contract (Domestic)	TX	Seller	2	(297)	(299)	
Futures contract (Overseas)	Grains Futures	Seller	6	(424)	(423)	
Futures contract (Overseas)	Index Futures	Purchaser	72	3,661	3,720	
Futures contract (Overseas)	Index Futures	Seller	44	(1,938)	(1,933)	
Futures contract (Overseas)	Foreign Exchange	Seller	18	(2,496)	(2,434)	
Futures contract (Overseas)	Metal Futrues	Purchaser	48	4,882	4,872	
Futures contract (Overseas)	Metal Futrues	Seller	93	(196,947)	(200,322)	
Futures contract (Overseas)	Energy Futures	Purchaser	6	546	551	
Options contract (Domestic)	TXO	Buy call	4,028	6,171	9,533	
Options contract (Domestic)	TXO	Sell call	3,973	(5,921)	(7,614)	
Options contract (Domestic)	TXO	Buy call	1,248	4,027	3,047	
Options contract (Domestic)	TXO	Sell call	1,074	(4,032)	(2,698)	

December 31, 2011

Item	Object of Transaction	Open Interest			Fair Value	Remarks
		Purchaser/Seller	Number of Contract(s) (Lot)	Margin Paid (Received) (Margin Received)		
Futures contract (Domestic)	TX	Purchaser	182	\$ 256,224	\$ 256,220	
Futures contract (Domestic)	MTX	Seller	148 (	52,393) (	52,089)	
Futures contract (Domestic)	TE	Purchaser	10	10,424	10,382	
Futures contract (Domestic)	TF	Purchaser	2	1,566	1,566	
Futures contract (Domestic)	TF	Seller	8 (	6,294) (	6,259)	
Futures contract (Domestic)	TX	Purchaser	427	17,831	17,700	
Futures contract (Domestic)	TX	Seller	99 (	5,246) (	5,176)	
Futures contract (Overseas)	Grains Futures	Purchaser	5	4,341	4,438	
Futures contract (Overseas)	Grains Futures	Seller	10 (	4,465) (	4,490)	
Futures contract (Overseas)	Index Futures	Seller	18 (	13,825) (	13,814)	
Futures contract (Overseas)	Foreign Exchange Futrues	Seller	1 (	4,868) (	4,923)	
Options contract (Domestic)	TFO	Buy call	1	2	3	
Options contract (Domestic)	TFO	Sell call	20 (	142) (	150)	
Options contract (Domestic)	TXO	Buy call	2,084	16,697	18,184	
Options contract (Domestic)	TXO	Sell call	4,226 (	10,694) (	10,995)	
Options contract (Domestic)	TXO	Buy call	2,222	18,513	16,444	
Options contract (Domestic)	TXO	Sell call	2,202 (	2,462) (	2,258)	
Options contract (Domestic)	TEO	Sell call	2 (	3) (	3)	
Options contract (Domestic)	TXO	Buy call	95	2	2	
Options contract (Domestic)	TXO	Sell call	210 (	4) (	4)	

10. RESTRICTIONS AND ENFORCEMENT OF THE COMPANY'S VARIOUS FINANCIAL RATIOS UNDER R.O.C. FUTURES COMMISSION MERCHANT LAWS

According to Rules Governing the Preparation of Financial Statements by Futures Commission Merchants

Article	Calculation formula	1/1/2012~12/31/2012		1/1/2011~12/31/2011		Standard	Enforcement (Note 3)
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Shareholders' equity}}{\text{(Total liabilities – Futures traders' equity – Reserve for default – Reserve for bad debt losses)}}$	$\frac{6,120,106}{388,322}$	15.76	$\frac{6,150,484}{539,576}$	11.40	≥ 1	Satisfied
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{37,453,238}{32,403,557}$	1.16	$\frac{39,299,985}{34,260,598}$	1.15	≥ 1	Satisfied
22	$\frac{\text{Shareholders' equity}}{\text{Minimum paid-in capital(Note 1)}}$	$\frac{6,120,106}{1,190,000}$	514.29%	$\frac{6,150,484}{1,175,000}$	523.45%	$\geq 60\%$ $\geq 40\%$ (Note 2)	Satisfied
22	$\frac{\text{Post-adjustment net capital}}{\text{Total margin deposits required for futures traders, not yet offset}}$	$\frac{5,035,863}{3,940,523}$	127.80%	$\frac{2,540,399}{1,717,637}$	147.90%	$\geq 20\%$ $\geq 15\%$	Satisfied

Note 1: "Minimum paid-in capital" shall be in compliance with futures commission merchants standard set of capital amount or designated appropriation of operating capital amount.

Note 2: For the entrusted foreign futures trading of foreign futures merchants, the standard ratios (shareholders' equity/minimum paid-in capital) are adjusted to 50% and 30%, respectively.

Note 3: "Enforcement" column shall state whether or not the financial ratio requirements are satisfied; if not, an explanation is needed to be filed with a specific appointed institution or establish an improvement plan.

11. SPECIFIC INHERENT RISKS IN OPERATING AS FUTURES DEALER

- A. Credit risk is the main risk for engaging in futures brokerage business since the Company must demand collecting trading margin deposits from customers. The credit risk occurs when the customers fail to pay margin deposits. The Company and its subsidiaries act as agents for trading futures and options contracts and should pay attention to daily margin credit as to control credit risk. Market risk is also noted in the industry due to dealer business. Dealer business is price index sensitive, therefore, the Company pre-sets stop loss point for risk management purposes.
- B. The specific risks of the Company's futures brokerage business are outlined below:
Futures trading has a characteristic of low margin. Therefore, the risks of futures trading include: when the futures market trend is unfavorable for customers, futures firms may demand to collect additional trading margin deposits from customers to keep certain margin level. If the customers fail to pay margin deposits in a period prescribed, futures firms have the right to offset the contract amount of the customers by the additional margin deposits demanded. Further, futures firms may incur losses when futures market prices fluctuate drastically and the customers are unable to settle futures contracts.
- C. See Note 17(5) for significant risk information on futures dealer business.

12. SEGMENT INFORMATION

- A. General information – type of product and service of reporting segments' income source
Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker, i.e. Board of Directors, that are used to make strategic decisions. The chief operating decision-maker considers the source of income, and the Company's operating segments are divided into broker and dealer. The primary source of income by each segment is as follows:
Broker: Consigned and entrusted to futures trading and financial instruments trading approved by relevant regulations in the R.O.C.
Dealer: Used capital funds to engage in trading stocks, futures, options, and other derivatives financial instruments approved by relevant regulations in the R.O.C.
- B. Measurement of segment information
(1) Information on segment profit (loss), assets, and liabilities
Measurement of profit (loss), assets and liabilities of the Company are consistent with Note 2 – Summary of significant accounting policies. Measurement of profit (loss) performance is based on income before tax.

In order to establish a fair and reasonable performance evaluation, the Company would offset the income and expense incurred internally from each segment for external financial reporting purposes.

Income and expense are classified directly to the segment where they belong to. For expense incurred indirectly, it will consider its classification based on the usage purpose by proportionally dividing into each segment when a reasonable rate can be assigned. Otherwise, it will be classified as “Other segment” when a reasonable rate cannot be assigned.

(2) Identifying factors for reportable segments

The measurement of segment performance will be evaluated periodically to ensure that it achieves the goals of the Company. The results of its evaluation will be used as the framework for resource allocation.

C. Information on segment profit (loss)

For the year ended December 31, 2012						
Items	Broker		Dealer		Total	
	Amount	%	Amount	%	Amount	%
Direct segment profit (loss)						
Segment revenue						
Brokerage	\$ 2,267,007	79	\$ -	-	\$ 2,267,007	56
Dividend revenues	-	-	17,068	2	17,068	-
Clearance fee from consignment	97,996	3	-	-	97,996	3
Gain on disposal of derivative financial instruments	-	-	1,167,466	98	1,167,466	29
Futures management fees income	3	-	-	-	3	-
Futures advisory	5,565	-	-	-	5,565	-
Other operating	12,691	1	-	-	12,691	-
Non-operating revenue	485,291	17	4,406	-	489,697	12
Total revenue	2,868,553	100	1,188,940	100	4,057,493	100
Segment expense						
Brokerage	(388,126)	(14)	(50,833)	(4)	(438,959)	(11)
Loss on disposal of operating securities	-	-	(786)	-	(786)	-
Futures commission	(490,482)	(17)	(16,373)	(1)	(506,855)	(13)
Clearance fee	(337,483)	(12)	(33,727)	(3)	(371,210)	(9)
Loss on disposal of derivative financial instruments	-	-	(818,982)	(69)	(818,982)	(20)
Salaries	(326,500)	(11)	(52,516)	(5)	(379,016)	(9)
Depreciation	(74,334)	(3)	(10,761)	(1)	(85,095)	(2)
Other operating expense	(400,272)	(19)	(204,996)	(17)	(605,268)	(15)
Non-operating expense	(62,751)	(2)	(18)	-	(62,769)	(2)
Total expense	(2,079,948)	(78)	(1,188,992)	(100)	(3,268,940)	(81)
Segment profit (loss)	\$ 788,605	22	(\$ 52)	-	\$ 788,553	19
Indirect segment profit (loss)						
Other revenue					-	-
Management expense					(95,516)	(2)
Interest expense					-	-
Other expense					-	-
Total					(95,516)	(2)
Net income before income taxes					693,037	17
Income tax expense					(109,539)	(3)
Net income					\$ 583,498	14

	Broker	Dealer	Other	Total
Segment assets	\$ -	\$ -	\$ -	\$ -

13. SUBSEQUENT EVENTS

None.

14. RELATED INFORMATION OF SIGNIFICANT TRANSACTIONS

A. Financing activities to any company or person: None.

B. Endorsements and guarantees provided: None.

C. Acquisition of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital for the year ended December 31, 2012: None

D. Disposal of real estate properties exceeding \$100 million or 20% of the Companies' paid-in capital during the year ended December 31, 2012: None

E. Purchases or sales transactions discount on Broker's charges with related parties in excess of NT\$5,000,000 : None.

F. Purchases or sales transactions with related parties in excess of \$100 million or over 20% of paid-in capital balance: None.

15. DISCLOSURE INFORMATION OF INVESTEE COMPANY

(A) Name of investee company, location, and related information are as follows:

Investor	Investee	Location	Main activities	Initial investment amount		Shares held as at December 31, 2012			Net income(loss) of the investee	Investment income (loss) recognized by the Company	Remark
				Balance as at 12/31/2012	Balance as at 12/31/2011	No. of shares (in thousands)	Ownership(%)	Book value			
Yuanta Futures Co., Ltd.	MF Global Futures Trust Co., Ltd.	Taiwan	Issuance of beneficiary certificates for futures trust fund raising, and use the fund to engage in futures trading and futures related investment.	\$ 99,990	\$ 99,990	9,999	33.33	\$ 77,957	(\$ 20,412)	(\$ 6,803)	
Yuanta Futures Co., Ltd.	Yuanta Futures (Hong Kong) Ltd.	Hong Kong	Financial Services	193,319	193,319	6,000	100.00	173,065	(2,068)	(2,068)	
Yuanta Futures Co., Ltd.	SYF Information Co., Ltd	Taiwan	Information Technology Services	50,000	-	5,000	100.00	50,026	(63)	(63)	
SYF Information Co., Ltd	SYF Information (SAMOA) Limited	SAMOA	Investment holdings	29,046	-	1,000	100.00	29,146	10	10	

(B) Information on investee companies with direct or indirect controlling interest is as follows:

- a. Financing activities to any company or person: None.
- b. Endorsements and guarantees provided: None.
- c. Acquisition of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital for year ended December 31, 2012: None
- d. Disposal of real estate properties exceeding \$100 million or 20% of the Companies' paid-in capital during the year ended December 31, 2012: None

- e. Purchases or sales transactions discount on Broker's charges with related parties in excess of NT\$5,000,000 : None.
- f. Purchases or sales transactions with related parties in excess of \$100 million or over 20% of paid-in capital balance: None.

16. DISCLOSURE OF INFORMATION ON INDIRECT INVESTMENTS IN MAINLAND CHINA

- A. Investment in Mainland China and related information: None.
- B. Ceiling on investment in Mainland China: None.

17. OTHERS

A. The internal auditors of the Company conduct audits on the procedures for internal personnel's consignment trading and related source documents on a weekly basis and keeps records for such audits. The data above have been reviewed by independent auditors.

B. The fair value of the financial instruments

	December 31, 2012			December 31, 2011		
	Book value	Fair value		Book value	Fair value	
		Quotations in an active market	Estimated using a valuation technique		Quotations in an active market	Estimated using a valuation technique
<u>Non-derivative financial instruments</u>						
<u>Financial assets</u>						
Financial assets with fair values equal to book values	\$ 36,447,987	\$ -	\$ 36,447,987	\$ 37,851,011	\$ -	\$ 37,851,011
Available-for-sale financial assets -current	103,315	103,315	-	-	-	-
Available-for-sale financial assets - noncurrent	315,998	44,187	271,811	271,811	-	271,811
Operatings guarantee deposits	195,000	-	195,000	285,000	-	285,000
Clearing and settlement funds	327,098	-	327,098	396,000	-	396,000
Refundable deposits	15,770	-	15,770	18,777	-	18,777
<u>Financial liabilities</u>						
Financial liabilities with fair values equal to book values	32,987,829	-	32,987,829	34,216,774	-	34,216,774
<u>Derivative financial instruments</u>						
Margin deposits – non-hedging	877,237	-	877,237	1,407,919	-	1,407,919
Purchased options – non-hedging	10,198	12,580	-	35,214	34,633	-
	Note 1					
Sale of options liabilities	9,953	10,312	-	13,305	13,410	-
	Note 2					

Note 1: Contract amount or margin paid was \$10,198; fair value at balance sheet date was \$12,580.

Note 2: Contract amount or margin received was \$9,953; fair value at balance sheet date was \$10,312.

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

- A) For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, margin deposits, futures trading margin receivable, accounts receivable, other receivables, other current assets, futures traders' equity, accounts payable, other payables (excluding income tax payable).
- B) Financial assets for trading purpose. The fair value of non-derivative financial instruments was based on active quoted market price.
- C) The fair values of operations guarantee deposits, clearing and settlement funds, and refundable deposits were determined based on their carrying values because their present value of expected cash flow amount is approximately equal to their carrying value.
- D) The fair value of derivative financial instruments was based on active quoted market price if available.
- E) Margin deposits and futures traders' equity are the amount that the Group should collect from customers. The fair value of these were determined based on daily closing market price.
- F) For available-for-sale financial assets, the fair value was based on active quoted market price. Unlisted stocks were valued at cost due to that greater variance interval is expected or probability cannot be reasonably estimated for its fair value.
- G) The methods for valuations of the fair values of the various financial instruments are shown as follows:
 - a. Equity securities:

Except for those securities valued at cost as required by relevant laws and regulations, equity securities shall be adjusted to fair value which is the closing price at the stock exchange.
 - b. Debt securities:

For government bonds and corporate bonds, the valuation is based on the market price calculated using the average yield rate published by OTC. The derivatives related to bonds are valued by the valuation models which take the yield rates stated above or the prices of the bonds as parameters; if there is no active market for the bond, such bond will be valued by the valuation models which take the yield rates published by OTC as parameters.
 - c. Foreign exchanges instruments:

Shall be valued taking reference to foreign exchange rates published by the designated banks, the applied exchange rate will be the average of the buy and sell exchange rates.
 - d. Interest rate instruments:

For instruments like Interest Rate Swaps, sources for parameters for interest rates will be obtained from authoritative price reporting systems (for example, Reuters), markets for

commercial papers of the approximately the same period, and the buy and sell interest rates published at fixed times during the day. Other parameters will also be brought into valuation models.

C. The methods of reporting derivative financial instruments on financial statements

- A) As of December 31, 2012 and 2011, the account balances of margin deposits were \$877,237 and \$1,407,919, respectively. These deposits were recognized as “futures margin deposits – house fund”, and the amounts of deposits exceeding the limit were \$858,197 and \$1,401,723, respectively.
- B) The gains on futures trading were \$843,870 and \$1,717,270 for the years ended December 31, 2012 and 2011, respectively, and were recognized as “gain on disposal of financial instrument – futures”.
- C) As of December 31, 2012 and 2011, the Group engaged in purchasing and selling of options with gains amounting to \$323,596 and \$2,056,468, respectively, and were recognized as “gain on disposal of derivative financial instruments – gain on options contract”.
- D) The losses on futures were \$661,354 and \$2,125,605 for the years ended December 31, 2012 and 2011, respectively, and were recognized as “loss on disposal of derivative financial instruments – loss on futures”.
- E) The Group was engaged in purchasing and selling of options with losses amounting to \$157,628 and \$861,528 for the years ended December 31, 2012 and 2011, respectively, and were recognized as “gain on disposal of derivative financial instruments – loss on options contract”.
- F) As of December 31, 2012 and 2011, the account balances – disposal of options amounted to \$10,312 and \$13,410, respectively, and were recognized as “financial liabilities at fair value through profit or loss – current” and classified as “liability on disposal of options”. As of December 31, 2012 and 2011, the account balances – purchase of options amounted to \$12,580 and \$34,633, respectively, and were recognized as “financial assets at fair value through profit or loss – current” and classified as “Purchase of options – non-hedging”.

D. Procedure of financial risk control

- A) The Group adopted an overall risk management and control system to identify a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk, so that the Board of the Company would be able to effectively control and measure its market risk, credit risk, liquidity risk, and cash flow risk.
- B) In order for the Board to control and manage a variety of market risk effectively as to achieve optimal risk position, maintain adequate liquidity position, and manage all market risk collectively, the Group has properly considered the effects of economic circumstances, competition, and market value risk in order to maintain adequate liquidity position and centrally manage its market risk.

E. Significant financial risk information

The Group was engaged in dealing futures and options. Significant financial risk information is as follows:

1. Market risk

- A) As of December 31, 2012 and 2011, the Group adopts VaR (value at risk) models in conducting market risk quantification management to control the changes of transaction risk. The risk management department also conducts market risk measurement and monitoring based on the relevant risk management rules.
- B) In accordance with EITF 100-046 of the R.O.C. Accounting Research and Development Foundation, dated February 18, 2011, the information on monetary assets and liabilities denominated in foreign currencies whose values would be materially affected by the fluctuations of the foreign exchange rates is disclosed as follows:

	December 31, 2012			December 31, 2011		
	Foreign Currency Amount		Exchange Rate	Foreign Currency Amount		Exchange Rate
	Currency	(in thousands)		Currency	(in thousands)	
<u>Financial Assets</u>						
Cash and bank deposits	USD	3	29.0400	USD	988	30.2800
	JPY	4,538	0.3364	JPY	70	0.3906
	HKD	2,736	3.7470	HKD	12,518	3.8970
	EUR	835	38.4900	EUR	62	39.1800
	GBP	180	46.8300	GBP	94	46.7300
	AUD	1	30.1650	-	-	-
	SGD	22	23.7600	SGD	20	23.3100
Futures trading guarantee deposits	USD	6,507	29.0400	USD	14,107	30.2800
- house fund	JPY	104,284	0.3364	JPY	122,858	0.3906
	HKD	6,079	3.7470	HKD	2,152	3.8970
	EUR	315	38.4900	EUR	631	39.1800
	GBP	250	46.8300	GBP	365	46.7300
Margin deposits	USD	304,003	29.0400	USD	306,988	30.2800
	JPY	89,808	0.3364	JPY	28,023	0.3906
	HKD	69,950	3.7470	HKD	41,108	3.8970
	EUR	1,616	38.4900	EUR	86	39.1800
	GBP	286	46.8300	GBP	51	46.7300
	AUD	1,022	30.1650	AUD	1,187	30.7350
	SGD	16	23.7600	SGD	27	23.3100
	-	-	-	CAD	2	29.6700
Futures exchange settlement funds	USD	55,379	29.0400	USD	73,546	30.2800
	HKD	572	3.7470	HKD	70,000	3.8970
Margin deposits at foreign futures companies	USD	42,811	29.0400	USD	47,412	30.2800
	JPY	361,736	0.3364	JPY	176,090	0.3906
	HKD	26,678	3.7470	HKD	28,552	3.8970
	EUR	872	38.4900	EUR	552	39.1800
	GBP	278	46.8300	GBP	299	46.7300
	SGD	57	23.7600	SGD	40	23.3100
Other receivables	USD	481	29.0400	USD	-	-
	HKD	16	3.7470	HKD	-	-
	-	-	-	GBP	52	46.7300
	-	-	-	EUR	72	39.1800
	-	-	-	AUD	29	30.7350
<u>Financial Liabilities</u>						
Futures traders' equity	USD	(401,992)	29.0400	USD	(202,361)	30.2800
	JPY	(450,398)	0.3364	JPY	(76,677)	0.3906
	HKD	(97,157)	3.7470	HKD	(3,298)	3.8970
	EUR	(2,485)	38.4900	EUR	(44)	39.1800
	GBP	(564)	46.8300	GBP	(33)	46.7300
	AUD	(1,022)	30.1650	AUD	-	-
	SGD	(72)	23.7600	SGD	(98,154)	23.3100
	-	-	-	CAD	(2)	29.6700
Accounts payable	JPY	(14)	0.3364	-	-	-
Temporary receipts	USD	(10)	29.0400	-	-	-
	JPY	(61)	0.3364	-	-	-
	HKD	(9)	3.7470	-	-	-

2. Credit risk

The Group is engaged in futures and options trading through the Taiwan Futures Exchange and expected no significant credit risk. Transactions are conducted only with counterparties with good credit conditions. Appropriate measures are also undertaken where necessary to protect the Group's credit rights and thereby mitigate credit risk.

3. Liquidity risk, cash flow risk, and uncertainty in amount and period for future cash flow need:

As of December 31, 2012 and 2011, the Group possesses options and futures (open interest), which can all be converted to close position with reasonable market price; therefore, the liquidity risk is low.

The Group is engaged in stock price indexed futures trading and should collect the trading margin deposits from clients before the trade. The Group would evaluate its open interest futures on a daily basis and use of operating capital to cover if additional margin deposits are needed; therefore, the cash flow risk is low. As for option contract engagements, the Group paid (received) the margin before the trade of purchase/sale of option. The Group would use its operating capital to cover if counterparty requested to short a call; therefore, the cash flow risk is low.

4. Operational risk

As for engaging in futures and options trading, the Group established rules in the operational process of collecting customers' large sum of margin deposits in order to avoid fraud.

5. Strategy of held-to-maturity financial instruments

The Group is currently engaged in futures and options trading, which is effectively utilizing its capital.

See Note 11 for futures brokerage special risk.

E. Business combination

In relation to the share conversion with Yuanta Futures Co., Ltd. in accordance with Gin-Gwen-Zheng-Qi Letter No. 1000052507, the related disclosures are as follows:

1. Introduction of the merged company: Yuanta Futures Co., Ltd. (initially named as Core Pacific limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) on December 1, 1993. It was approved to engage in futures proprietary business by the competent authority on March 10, 1998 and obtained the clearing membership on July 7, 1998. Yuanta Futures Co., Ltd. is primarily engaged in onshore and offshore futures brokerage business, futures proprietary business, futures clearing business, futures consulting and other futures related businesses approved by the competent authority. As of April 1, 2012, Yuanta Futures Co., Ltd. had 1 branch.

2. Purpose of merger and legal basis:

- a) Objectives: To enlarge business scope, reach economy of scale, increase operational efficiency and raise financial integration competitive advantage.
- b) Legal basis: In accordance with financial holdings, business combination and all other related laws and regulations.

3. Date of merger and percentage of shares conversion:

On October 6, 2011, the Board of Directors of the Company at their meeting resolved to merge with Yuanta Futures Co., Ltd. and set April 1, 2012 as the merger date by issuing new shares to increase capital based on a conversion ratio of 1 share of Yuanta Futures Co., Ltd. to 1.01 shares of the Company.

4. Accounting treatment:

The Company's merger with Yuanta Futures Co., Ltd. is classified as a reorganization in accordance with EITF 100-390 of the Accounting Research and Development Foundation, R.O.C., and is recognized based on the long-term investments' carrying amount (the amount after impairment loss) of Yuanta Financial Holding Co., Ltd. (the parent company) to Yuanta Futures Co., Ltd. The Company will continue to recognize the resulting difference between the initial investment cost and net equity investment in providing a proper treatment. As the former Yuanta Futures Co., Ltd. was dissolved after the merger, the Company used the book value of assets and liabilities of the former Yuanta Futures Co., Ltd. as the cost of acquisition and issued new shares; face value of the shares is share capital. Amounts in balance sheet accounts (such as unrealized gain or loss on financial instruments) of Yuanta Futures Co., Ltd. should be reclassified at book value, and other amounts should be credited to capital surplus. Moreover, according to Accounting Research and Development Foundation Interpretations 95-141 and 101-301, this affiliated company was regarded as having been merged on October 3, 2011 and prior years' consolidated financial statements were restated. Polaris Securities Co., Ltd. was absorbed as a subsidiary of Yuanta Financial Holdings Co., Ltd. through share swaps on October 3, 2011. Polaris Futures Co., Ltd. was formerly a subsidiary of Polaris Securities Co., Ltd.. Therefore, October 3, 2011 was regarded as the effective date of merger. The 100% interest in Yuanta Futures Co., Ltd. previously held by Yuanta Financial Holdings Co., Ltd. was presented as "prior interest under joint control" in the consolidated financial statements. The assets and liabilities of Yuanta Futures Co., Ltd. on the merger date were as follows:

	<u>Amount</u>
Cash and cash equivalents	\$ 1,706,825
Financial assets at fair value through profit or loss-current	397,096
Margin deposits	17,027,028
Accounts receivable (include Futures trading margin receivable)	8,356
Prepayments	5,502
Other receivables	10,840
Other current assets	9
Available-for sale financial assets	290,663
Fixed assets	43,324
Intangible assets	19,096
Other assets	310,565
Deferred income tax assets	14,125
Financial liabilities at fair value through profit or loss	(2,182)
Futures traders' equity	(17,020,409)
Accounts payable	(47,518)
Collection for third parties	(2,570)
Other payables	(76,885)
Other current liabilities	(6,086)
Accrued pension liabilities-noncurrent	(6,215)
Reserve for bad debts losses	(61,676)
Subtotal	2,609,888
Shares conversion-new share capital issued	(1,010,000)
Capital reserve: paid-in capital in excess for par due to merger	(1,600,144)
Unrealized gain or loss on financial instruments due to merger	256
Total	<u>\$ -</u>

18. DISCLOSURES RELATING TO THE ADOPTION OF IFRSs

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a company which is in the financial industry should prepare financial statements in accordance with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), and relevant interpretations and interpretative bulletins that are ratified by the Financial Supervisory Commission.

The Company discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Rule No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010, Jin-Guan-Zheng-Ji-Zi Rule No. 0990014302 of the Financial Supervisory Commission, dated April 13, 2010, and Tai-Ji-Ji-Zi Rule No. 09900039780 of the Taiwan Futures Exchange, dated April 22, 2010:

(A) Major contents and status of execution of the Company's plan for IFRSs adoption:

The Company has formed an IFRSs group headed by the Company's vice director, Yu-Hong Kuo, which is responsible for setting up a plan relative to the Company's transition to IFRSs. The major contents and status of execution of this plan are outlined below:

Working Items for IFRSs Adoption	Status of Execution
a. Formation of an IFRSs group	Completed
b. Setting up a plan relative to the Company's transition to IFRSs	Completed
c. Identification of the differences between current accounting policies and IFRSs	Completed
d. Identification of consolidated entities under the IFRSs framework	Completed
e. Evaluation of the impact of each exemption and option on the Company under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed
f. Evaluation of needed information system adjustments	Completed
g. Evaluation of needed internal control adjustments	In progress
h. Establish IFRSs accounting policies	Completed
i. Selection of exemptions and options available under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed
j. Preparation of statement of financial position on the date of transition to IFRSs	Completed
k. Preparation of IFRSs comparative financial information for 2012	In progress

Working Items for IFRSs Adoption	Status of Execution
1. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments	In progress

- (B) Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” that will be used in the preparation of financial statements in the future:

The Company uses the IFRSs already ratified currently by the Financial Supervisory Commission and the “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Company’s current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by the Financial Supervisory Commission or relevant interpretations or amendments to the “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” come in the future.

The effects of material differences identified by the Company that may arise between current accounting policies used in the preparation of financial statements and IFRSs and “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” that will be used in the preparation of financial statements in the future, and the effects of exemptions selected by the Company under IFRS 1 – First-time Adoption of International Financial Reporting Standards (refer to Note 18(2)C) are set forth below:

1. Reconciliation of balance sheet accounts with material differences between different accounting policies adopted as at January 1, 2012:

	Accounting Standards in R.O.C	Adjustment	IFRSs	Remark
Cash and cash equivalents	\$ 3,807,953	\$ 1,401,723	\$ 5,209,676	(1)
Financial assets at fair value through profit or loss-current	1,442,552	(1,401,723)	40,829	(1)
Other receivables-non-related parties	28,665	(3,750)	24,915	(2)
Current income tax assets	-	3,750	3,750	(2)
Available-for-sale financial assets-noncurrent	271,811	417,399	689,210	(3)
Fixed assets-prepayment for equipment	13,360	(13,360)	-	(4)
Other assets-prepayment for equipment	-	13,360	13,360	(4)
Deferred income tax assets - current	856	(856)	-	(9)
Other assets-deferred income tax assets	25,781	(12,382)	13,399	(6)、(7)、(8)、(9)
Others	34,976,039	-	34,976,039	
Total assets	40,567,017	404,161	40,971,178	
Other payables-non-related parties	239,733	(25,205)	214,528	(5)
Current income tax liabilities	-	25,205	25,205	(5)
Reserve for employee benefits liabilities-current	34,014	44,048	78,062	(6)、(7)
Reserve for bad debts losses	121,921	(121,921)	-	(8)
Others	34,020,865	-	34,020,865	
Total liabilities	34,416,533	(77,873)	34,338,660	
Common stock	1,312,763	-	1,312,763	
Paid-in Capital	407,633	-	407,633	
Legal reserve	310,230	-	310,230	
Special reserve	824,179	49,928	874,107	(8)
Unappropriated earnings	465,637	(28,136)	437,501	(6)、(7)
Unrealized profit on available-for-sale financial assets	-	155,152	155,152	(3)
Cumulative translation adjustments	(11,673)	-	(11,673)	
Equity before common controlling interest	2,841,715	305,090	3,146,805	(6)、(7)、(8)
Total Shareholders' Equity	6,150,484	482,034	6,632,518	

Reasons for differences are outlined below:

- (1) According to IAS 7, 'Statement of Cash Flows', the nature of excess margin for futures transactions belongs to "cash and cash equivalents". Therefore, excess margin of \$1,401,723 was reclassified from "financial assets at fair value through profit or loss-current" to "cash and cash equivalents".
- (2) According to IAS 12, 'Income Taxes', the current period's and prior period's income tax refundable (recorded under "Other receivables – non-related parties") pertains to current period's income tax assets. Therefore, the income tax refundable of \$3,750 was reclassified into a separate balance sheet account as "current income tax assets".
- (3) In accordance with the amended "Rules Governing the Preparation of Financial Statements by Futures Commission Merchants", dated December 29, 2011, unlisted stocks and emerging stocks held by the Company should be measured at cost and recognized in "Available-for-sale financial assets". However, in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability of the estimation interval of reasonable fair values of such equity instruments is insignificant, or the probability for these estimates can be made reliably) should be measured at fair value. Therefore, the Company compared the fair value at the transition date with its book value for "Available-for-sale financial assets" which resulted to an adjustment of difference to available-for-sale financial assets by increasing the balance by \$417,399 and to unrealized gain on available-for-sale financial assets by increasing the balance by \$417,399 , respectively. Also, "prior interest under joint control" was increased by \$262,247 for the difference resulting from the dissolved company—the former Yuanta Futures Co., Ltd..
- (4) In accordance with IAS 16, 'Property, Plant and Equipment', and 'Rules Governing the Preparation of Financial Statements by Securities Issuers' that are expected to be applied in 2013, prepayment on equipment of \$13,360 was reclassified from 'fixed assets – prepayment for equipment' to 'other assets – prepayment for equipment'.
- (5) According to IAS 12, 'Income Taxes', current period's and prior period's income tax payable (recorded under " other payables – non-related parties") belongs to current period's income tax liabilities. Therefore, the income tax payable of \$25,205 was reclassified into a separate balance sheet account as " current income tax liabilities".
- (6) The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Company recognizes such costs as expenses upon actual payment. However, IAS 19, "Employee Benefits", requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. Therefore, the Company made adjustments to "Reserve for employee benefits liabilities – current" by increasing the balance by \$12,473, to "Other

asset - deferred income tax assets” by increasing the balance by \$2,120, and to “Unappropriated earnings” by decreasing the balance by \$10,353, respectively, on the transition date. Also, ‘prior interest under joint control’ was reduced by \$4,214 for the difference resulting from the dissolved company—the former Yuanta Futures Co., Ltd..

- (7) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, “Employee Benefits”, requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead. In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. However, as the Company is a first-time adopter of IFRSs, the transitional provisions in IAS 19, “Employee Benefits” does not apply. Therefore, the Company has no unrecognized transitional liabilities. All the employee benefit plans, including pension plans, do not comply with IAS 19 “Employee Benefits”, which states that all the employee benefit plans should recognize retroactive adjustments for previous years’ actuarial pension gain or loss immediately or deferred by using corridor approach method. Instead, the Company recognized the accumulated actuarial gain or loss at transition date on the balance sheet. Therefore, the Company has made adjustments to “Accrued pension liabilities” by increasing the balance by \$31,575, to “Other asset - deferred income tax assets” by increasing the balance by \$5,368, and to “Unappropriated earnings” by decreasing the balance by \$26,207. Also, ‘prior interest under joint control’ was reduced by \$4,210 for the difference resulting from the dissolved company—the former Yuanta Futures Co., Ltd..
- (8) As provision for bad debts amounting to \$121,921 did not conform to the definition of provision for liabilities under IAS 37, the net amount of provision for bad debts less the effect of other asset - deferred income tax assets of \$20,726 has been transferred to “Special reserve” by \$101,195, in accordance with IAS 37 and Jin-Guan-Zheng-Quan-Zi Letter No. 1010011388 of Financial Supervisory Commission, dated June 18, 2012. Also, ‘prior interest under joint control’ was increased by \$51,267 for the difference resulting from the dissolved company—the former Yuanta Futures Co., Ltd..
- (9) Under IAS 1, “Presentation of Financial Statements”, an entity should classify a deferred tax asset or liability as noncurrent. Therefore, the Company reclassified deferred tax assets – current amounting to \$856 to the “Other assets - deferred income tax assets” account at the date

of transition to IFRSs.

2. Reconciliation of balance sheet accounts and income statement accounts with material differences between different accounting policies adopted as at December 31, 2012 and for the year ended December 31, 2012:

	Accounting Standards in R.O.C	Adjustment	IFRSs	Remark
Cash and cash equivalents	\$ 4,169,161	\$ 858,197	\$ 5,027,358	(1)
Financial assets at fair value through profit or loss-current	889,817	(858,197)	31,620	(1)
Other receivables-non-related parties	9,916	(112)	9,804	(2)
Current income tax assets	-	112	112	(2)
Available-for-sale financial assets-noncurrent	315,998	467,673	783,671	(3)
Fixed assets-prepayment for equipment	25,062	(25,062)	-	(4)
Other assets-prepayment for equipment	-	25,062	25,062	(4)
Deferred income tax assets - current	4,222	(4,222)	-	(9)
Other assets-deferred income tax assets	25,660	(904)	24,756	(6)、(7)、(8)、(9)
Others	33,175,136	-	33,175,136	
Total assets	38,614,972	462,547	39,077,519	
Other payables-non-related parties	190,404	(29,273)	161,131	(5)
Current income tax liabilities	-	29,273	29,273	(5)
Reserve for employee benefits liabilities-current	31,799	11,708	43,507	(7)
Reserve for bad debts losses	58,190	(58,190)	-	(8)
Others	32,214,473	-	32,214,473	
Total liabilities	32,494,866	(46,482)	32,448,384	
Common stock	2,322,763	-	2,322,763	
Paid-in Capital	2,007,777	(8,732)	1,999,045	(6)、(7)
Legal reserve	356,697	-	356,697	
Special reserve	928,785	48,298	977,083	(8)
Unappropriated earnings	523,907	1,126	525,033	(6)、(7)
Unrealized profit on available-for-sale financial assets	(1,839)	465,561	463,722	(3)、(10)
Cumulative translation adjustments	(17,984)	-	(17,984)	
Total Shareholders' Equity	6,120,106	506,253	6,6326,359	

	Accounting Standards in R.O.C	Adjustment	IFRSs	Remark
Total Revenues	\$ 4,057,493	\$ 2,112	\$ 4,059,605	(10)
Total Expenses	(3,364,456)	9,784	(3,354,672)	(6)・(7)
Income before tax	693,037		693,037	
Income tax expense	(109,539)	(1,663)	(111,202)	(6)・(7)
Consolidated Net Income	583,498	-	583,498	
Attributable to:				
Equity holders of the Company	\$ 523,881	10,550	534,431	
Net income before common controlling Interest	59,617	(317)	59,300	(6)・(7)
Consolidated Net Income	583,498	-	583,498	
Other comprehensive income				
Unrealized gain on available-for-sale financial assets		46,324	46,324	(3)
Actuarial gains (losses) on defined benefits		18,722	18,722	(7)
Income taxes relating to components of other comprehensive income		(3,835)	(3,835)	(7)

Reasons for differences are outlined below:

- (1) According to IAS 7, 'Statement of Cash Flows', the nature of excess margin for futures transactions belongs to "cash and cash equivalents". Therefore, excess margin of \$858,197 was reclassified from "financial assets at fair value through profit or loss-current" to "cash and cash equivalents".
- (2) According to IAS 12, 'Income Taxes', the current period's and prior period's income tax refundable (recorded under "Other receivables – non-related parties") pertains to current period's income tax assets. Therefore, the income tax refundable of \$112 was reclassified into a separate balance sheet account as "current income tax assets".
- (3) In accordance with the amended "Rules Governing the Preparation of Financial Statements by Futures Commission Merchants", dated December 29, 2011, unlisted stocks and emerging stocks held by the Company should be measured at cost and recognized in "Available-for-sale financial assets". However, in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability of the estimation interval of reasonable fair values of such equity instruments

is insignificant, or the probability for these estimates can be made reliably) should be measured at fair value. Therefore, the Company compared the fair value at the transition date with its book value for “Available-for-sale financial assets” which resulted to an adjustment of difference to unrealized gain on available-for-sale financial assets of \$467,673.

- (4) In accordance with IAS 16, ‘Property, Plant and Equipment’, and ‘Rules Governing the Preparation of Financial Statements by Securities Issuers’ that are expected to be applied in 2013, prepayment on equipment of \$25,062 was reclassified from ‘fixed assets – prepayment for equipment’ to ‘other assets – prepayment for equipment’.
- (5) According to IAS 12, ‘Income Taxes’, current period’s and prior period’s income tax payable (recorded under “ other payables – non-related parties”) belongs to current period’s income tax liabilities. Therefore, the income tax payable of \$29,273 was reclassified into a separate balance sheet account as “ current income tax liabilities”.
- (6) The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Company recognizes such costs as expenses upon actual payment. However, IAS 19, “Employee Benefits”, requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. Therefore, the Company made adjustments to “Reserve for employee benefits liabilities – current” by increasing the balance by \$20,636, to “Other asset - deferred income tax assets” by increasing the balance by \$3,508, to “Unappropriated earnings” by decreasing the balance by \$10,353, to “Salaries expense” by decreasing the balance by \$8,163 and to “Income tax expense” by decreasing the balance by \$1,388 respectively, on December 31, 2012. Also, capital surplus was reduced by \$4,214 and \$356 for the difference resulting from the dissolved company—the former Yuanta Futures Co., Ltd. on January 1, 2012 and before structure reorganization, respectively.
- (7) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, “Employee Benefits”, requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead. In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. However, as the Company

is a first-time adopter of IFRSs, the transitional provisions in IAS 19, “Employee Benefits” does not apply. Therefore, the Company has no unrecognized transitional liabilities. All the employee benefit plans, including pension plans, do not comply with IAS 19 "Employee Benefits", which states that all the employee benefit plans should recognize retroactive adjustments for previous years' actuarial pension gain or loss immediately or deferred by using corridor approach method. Instead, the Company recognized the accumulated actuarial gain or loss at transition date on the balance sheet. Therefore, the Company has made adjustments to “Accrued pension liabilities” by increasing the balance by \$7,398, to “Other asset - deferred income tax assets” by increasing the balance by \$1,260, to “Income tax expense” by increasing the balance by \$275, to “Unappropriated earnings” by decreasing the balance by \$7,483 and to “Pension expense” by decreasing the balance by \$1,621 on December 31, 2012. Also, capital surplus was reduced by \$4,162 and increased by \$39 for the difference resulting from the dissolved company—the former Yuanta Futures Co., Ltd. on January 1, 2012 and before structure reorganization, respectively.

- (8) As provision for bad debts amounting to \$58,190 did not conform to the definition of provision for liabilities under IAS 37, the net amount of provision for bad debts less the effect of other asset - deferred income tax assets of \$9,892 has been transferred to “Special reserve” by \$48,298, in accordance with IAS 37 and Jin-Guan-Zheng-Quan-Zi Letter No. 1010011388 of Financial Supervisory Commission, dated June 18, 2012.
 - (9) Under IAS 1, “Presentation of Financial Statements”, an entity should classify a deferred tax asset or liability as noncurrent. Therefore, the Company reclassified deferred tax assets – current amounting to \$4,222 to the “Other assets - deferred income tax assets” account at the date of transition to IFRSs.
 - (10) In accordance with paragraph 32 of ROC SFAS No. 32, cash dividends received in current year from equity securities investments other than financial assets at fair value through profit or loss shall be recognized as collection of investment costs. However, the Taiwan version of IFRSs published by the Financial Supervisory Commission does not specify the rule on liquidating dividends. Therefore, the Company reclassified cash dividends of \$2,112 received in current year to dividends income and reduced unrealized gain on available-for-sale financial assets by \$2,112.
- (C) In accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” and “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” to be applicable in 2013, the exemption items are listed below:
- (1) Business combinations

The Company has elected not to apply the requirements in IFRS 3, “Business Combinations”, retrospectively to business combinations that occurred prior to transition to IFRSs.

(2) Employee benefits

The Company made an adjustment to recognize accumulated actuarial pension gain or loss immediately in “Retained earnings” at transition date. And starting from the transition date, the Company would postpone on each accounting reporting period the disclosure requirement amount for benefit obligations as stated in IAS 19, “Employee Benefits”, paragraph 120A(P).

Some of the above-mentioned exemptions may be different from actual results due to issuances of new laws and regulations, changes in economic environment, or changes in evaluation of exemptions adopted by the Company.